

## Market Review

The growth in lamb prices continues but momentum is beginning to slow with returns for a 16kg cwt lamb increasing by 20c/kg through March. Strong overseas prices and dismal slaughter rates are behind the gains and even the strengthening kiwi dollar couldn't stop the rises last month. Prices have smashed historical levels with average returns in March an incredible 75% higher than 5yr avg levels.

**Overseas prices** remain strong with new records being realised as the week's progress. March saw UK CKTleg returns break through £2.50/lb with US French Rack prices almost double the same time last year. Enquiry has been strong from all corners of the globe with China, the Middle East and Russia helping to underpin the returns in our more traditional markets. Exporters continue to focus on the lucrative chilled markets but supplies remain inadequate so most are struggling to take full advantage of the positive rewards.

**Procurement Pressure.** Meat companies are starting to put their foot on the gas with procurement rates creeping up above last years levels. Current procurement levels are sitting at around 55% of UK CKT leg returns.

## Overseas Markets

### a. NZ Competitors

**Australia** Good seasonal conditions have allowed Aussie producers to hold to heavier weights which has helped boost production levels on slaughter. This has enabled export volumes to keep pace with a year ago levels despite slaughter rates lagging behind the eight ball. However, Australian sheep meat exports are forecast to fall by around 3% in the 2010/11 season reflecting lower overall sheepmeat production as producers rebuild flocks. Further pressuring their traditional markets will be the fact that the export focus is changing to developing regions like China, the Middle East and Sth East Asia. This could open up opportunities for NZ producers but its unlikely we will be able to take advantage given supplies.

### b. NZ Key Export Markets

**UK/EU:** The first flush of spring lambs are coming on in the UK/EU and retailers are making the change to domestic product. It is still early days but initial indications show the kill is down with the effects of the harsh winter delaying the availability of well grown lambs. Consumption will seasonally fall as consumers move into summer BBQ season however stocks remain extremely low and this should underpin returns for some time yet. It should be noted that buyers are already heavily resisting further price increases at present so as we move further into their season there is the potential for prices to levels off in these markets.

**US:** Forecast US lamb and mutton production depicts their lowest levels on record with 2011 volumes only predicted to reach a poultry 155million pounds. That is a 20% drop on just 5yrs ago and comes at a time when finished lamb prices are closing in on all time highs. Many producers want to rebuild herds in anticipation of even higher prices at a later date however this lessens the number of animals available for slaughter thus reducing production and destroying their ability to capitalise on prices now. It's a 50:50 call but its seems many are taking a punt on longer term gains and with US consumption forecast to remain steady, there will certainly be strong demand for imported product to fill the gaps going forward.

**Other market:** Russia, China and the Middle East are becoming increasingly important players in the NZ export lamb market as their economies continue to grow. These countries demand for protein has been increasing in line with their disposable incomes and they have been looking to both NZ and Australia to fill the void. Not only is their marketshare increasing but they continue to underpin returns in our more traditional markets which can only mean good news for NZ producers going forward.

## Price Projections

Indicator prices continue to track higher as global demand strengthens on the back of limited supplies. Demand is set to increase further as economies recover worldwide which will further pressure the market. Unfortunately the high prices have and will force a change in consumption trends and this will be a concern going forward when production levels lift.

**UK Market Prices** – A general shortage of product and strong competition from other markets will ultimately underpin prices in the outlook period. Prices tend to trend up going into winter and 2011 looks to be no exception, but with prices already at staggering levels, lifts are likely to be minimal.

**Exchange Rate** – No-one wants to put money on it but the banks predictions point toward the dollar floating around GBP46c by June.

**NZ supplies & Procurement** – This time last year the NZ lamb kill was trailing the 08/09 season by 360,000 hd and that was upsetting some processors. Today we are behind last seasons levels by nigh on 2million hd! Farmers continue to compensate for lower numbers on farm by holding to heavier weights although more have been offloaded in the past month in preparation for winter. With just over 5million lambs left to kill in the Sth Is for the rest of the season there are close to 1.4million less lambs compared to the same time last year.

Procurement pressure will be strong as processors fight to secure product.

Lamb price projections to September 2011						
Export Market	Apr	May	Jun	Jul	Aug	Sept
UK CKT Leg	2.52	2.54	2.56	2.56	2.57	2.58
\$NZ:£UK	0.470	0.470	0.470	0.470	0.470	0.470
\$NZ/kg	\$11.8	\$11.9	\$12.0	\$12.0	\$12.0	\$12.1
Operating Price 16kg cwt lamb						
Current season	\$6.50	\$6.75	\$6.95	\$7.15	\$7.30	\$7.50
\$/head	\$104	\$108	\$111	\$114	\$117	\$120
Effect of exchange rate on price projections for 16kg cwt lamb						
Exchange Rate	Mar	Apr	May	Jun	Jul	Aug
0.445	\$6.87	\$7.13	\$7.34	\$7.55	\$7.71	\$7.92
0.455	\$6.71	\$6.97	\$7.18	\$7.39	\$7.54	\$7.75
0.460	\$6.64	\$6.90	\$7.10	\$7.31	\$7.46	\$7.66
0.465	\$6.57	\$6.82	\$7.02	\$7.23	\$7.38	\$7.58
<b>0.470</b>	<b>\$6.50</b>	<b>\$6.75</b>	<b>\$6.95</b>	<b>\$7.15</b>	<b>\$7.30</b>	<b>\$7.50</b>
0.475	\$6.43	\$6.68	\$6.88	\$7.07	\$7.22	\$7.42
0.480	\$6.36	\$6.61	\$6.81	\$7.00	\$7.15	\$7.34
0.485	\$6.30	\$6.54	\$6.74	\$6.93	\$7.07	\$7.27
0.495	\$6.17	\$6.41	\$6.60	\$6.79	\$6.93	\$7.12

